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# Growth in emerging markets to continue in 2010, says economist

## Economist sees long-term growth in Malaysia, China and India

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KUALA LUMPUR: The growth in emerging markets will continue into next year, said Robert F Baur, chief global economist at Principal Global Investors.

"For the long term, the growth is in (countries like) Malaysia, China and India. For example, India has set a growth goal of close to 10% and if they can replicate what was done in South Korea, Taiwan and Hong Kong, then there's where the growth is going to be.

"(This is because) there are so many people there. We're talking about three billion people now so there's a huge growth engine (there) and that is the basis for the optimism," he said at a media briefing organised by CIMB-Principal Asset Management Bhd yesterday.

Baur also said that the current liquidity in the market would not cause inflation on prices of goods and services.

"What central banks are going to do with all the liquidity that they have, is to go where the growth is going and where people think that investment return is going to be," said Baur, adding this included emerging market stocks and real estate such as Malaysian beachfront properties, Vietnamese and Brazilian farmland.

He also said that the industrialisation and urbanisation process in the emerging markets will continue, with sectors that deal with growth being the key sectors going forward.

"These are sectors like basic materials, technology, industrials and finance."

Going forward, there will be unevenness in the way countries recover from the financial crisis.

"(The late US economist) Milton Friedman called it a pluck string theory, like on a bow or violin string where the farther you pulled it back, the faster it snaps back when you let it go.

"In some sense, it explains part of the divergence. The countries that were hit really hard, like Hong Kong, South Korea and Singapore, which had double digit declines in growth, have seen their exports soar and double digit increases in growth as a result."

Baur. Photo by Suhaimi Yusuf

In the same way, Baur said countries that were not hit quite as hard were not coming back as fast as the others.

"For example, Eastern Europe is going to be slow to come out as their economies are not quite as flexible with a lot more spending and they are still in the mode of borrowing from abroad in foreign currencies so they have been hit by that. As a result they don't have quite so much upside."

Baur also said that he didn't see a double-dip in the economy happening next year.

"When I say double-dip, I mean an actual recession and I don't believe that would happen. However, we do expect that growth will slow down in the second and third quarter. I would call it a 'swoosh' — like a Nike 'swoosh'."

With the US, Baur sees a growth of 3% to 3.5% in 4Q this year and a sluggish 2.7% growth for 1Q next year. Although employment still seems to be high, he considers it a lagging indicator that will turn positive soon.

"We think that the job losses in the US will moderate and we should see our first month of no job losses in December or January.

"If you look around the world, there are eight to 10 countries that are showing job increases and this include Australia, Canada, South Korea and China."

He also pointed out that home prices and auto production are on the uptrend, further signalling a recovery underway for the US.

Even then, risks will remain, with businesses finding no incentives to expand, consumers staying depressed and potential policy mistakes.

"We see three risks, one is that businesses have no incentive to expand because for now what small businesses see out of policymakers in Washington is taxes that are going to go up substantially on just about everything. As small businesses where jobs are created might look at the higher taxes and wonder if it's really worth buying the next door plant or hiring another ten people."

He said the second risk is that consumers might stay depressed and start saving much more than they have been, which will stall economic growth.

"The third risk is the potential for policy mistakes. Central banks have provided a great deal of liquidity all around the world and if they pull that liquidity back out too fast, then there would be a headwind for growth, but if they do it too slowly that means inflation down the road," added Baur.